

The U.S. Proposal: Delivering 100 Percent Debt Relief

Objective: The U.S. seeks to conclusively end the lend-and-forgive approach to development assistance in low-income countries by writing-off the burdensome debt stocks of the Heavily Indebted Poor Countries (HIPCs). Such action will put them on sound footing for their drive to reach the internationally-agreed development goals.

Proposal Components: The key elements of the U.S. proposal for qualifying HIPCs include:

- **100 percent IDA and African Development Fund (AfDF) debt stock relief.** This would be delivered by relieving HIPCs' repayment obligations and adjusting their gross assistance flows by the amount forgiven, thereby ensuring that their net resources do not decline. Importantly, net assistance levels to non-HIPCs would also be unaffected;
- **100 percent bilateral relief** on debt incurred prior to the Cologne Summit - June 20, 1999;
- **100 percent grant financing from IDA and AfDF through 2015**, thereby ensuring that countries do not immediately re-accumulate unsustainable external debts. This transition period will enable countries to focus on developing the necessary environment for promoting economic growth and poverty reduction.

Please see the attachment for a more detailed description of the mechanics and financial implications of delivering 100 percent IDA and AfDF debt relief.

Key Points: The U.S. approach is the only proposal that:

- Cancels 100 percent of IDA and AfDF debt stock;
- Cancels 100 percent of bilateral debt stock;
- Meets the G-7 pledge to relieve IDA and AfDF debts without reducing the resources available to the poorest countries;
- Meets the World Bank's call that additional debt relief not crowd out the provision of needed new financing (i.e. resources for direct aid flows should not be diverted to fund debt relief).
- Ensures equity between HIPC and non-HIPCs since net assistance provided by IDA and AfDF does not decline for any country. Maintaining net transfers ensures that no country receives more favorable treatment than others because of debt relief and that no country benefits merely from having borrowed too much in the past.
- Does not circumvent the IDA and AfDF performance allocation systems. Thus, country assistance would be provided based on performance, not preexisting debt service obligations.